

STATE OF MARYLAND

Board of Public Works

GOVERNOR • TREASURER • COMPTROLLER

Report to the Legislative Policy Committee
on the Operations and Effectiveness of the

Small Business Reserve Program



Treasury Bldg, Room 117
80 Calvert Street
Annapolis, Maryland 21401

Fiscal Year 2014

MARYLAND
BOARD OF PUBLIC WORKS

Governor Treasurer Comptroller

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April 7, 2015

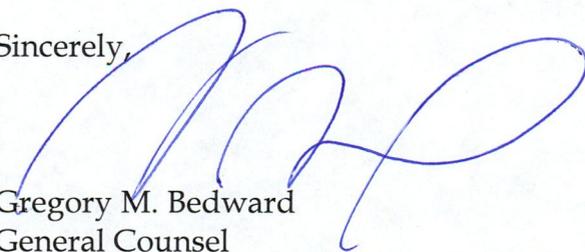
The Honorable Thomas V. Mike Miller, Jr.
The Honorable Michael E. Busch
Legislative Policy Committee
Legislative Services Building, Room 200B
90 State Circle
Annapolis, Maryland 21401 - 1991

Dear Mr. President and Mr. Speaker:

As required by State Finance and Procurement Article, §14-505, the Board of Public Works is submitting the FY'14 Small Business Reserve Program Report.

Please feel free to contact me if you have any questions.

Sincerely,


Gregory M. Bedward
General Counsel

CC: The Honorable Lawrence J. Hogan, Jr.
The Honorable Nancy K. Kopp
The Honorable Peter Franchot
Sheila McDonald, Executive Secretary
Sarah Albert, Legislative Services
Enoch Pratt Free Library

EXECUTIVE SUMMARY

The Small Business Reserve Program aims to increase participation in State procurements by small businesses. Currently, 6,183 small businesses are listed as qualified in *eMaryland Marketplace*. Under the Program, 23 designated State agencies must structure their procurement procedures to ensure that at least 10% of procurement dollars are expended directly with certified small businesses at the prime contract level. In FY 2014 the designated State agencies spent almost 12% of their procurement dollars on small businesses.

I. SCOPE OF REPORT

Every designated agency must submit an annual report to the Board of Public Works concerning that agency's experience with the Small Business Reserve Program in the preceding fiscal year. The Board is tasked with compiling the annual information and submitting a report "on the operation and effectiveness of the entire Small Business Reserve Program" to the Legislative Policy Committee.

II. PROGRAM OPERATION

The Small Business Reserve Program became effective October 1, 2004. The primary goal of the Program is to facilitate the participation of small businesses in Maryland's procurement system. Procurements that are designated small business reserve are only open to certified small businesses. Each designated State agency must structure its procurement procedures to ensure that at least 10% of its procurement dollars are expended directly with certified small businesses at the prime contract level.

The designated State agencies are:

Cabinet Departments

- Business & Economic Development
- Education
- Environment
- General Services
- Health & Mental Hygiene
- Housing & Community Development
- Human Resources
- Information Technology
- Juvenile Services
- Labor, Licensing, & Regulation
- Natural Resources
- Public Safety & Correctional Services
- State Police
- Transportation

Non-Cabinet Agencies

- Maryland Port Commission
- Maryland Transportation Authority
- State Retirement
- Maryland Insurance Admin.
- Maryland Stadium Authority
- State Lottery & Gaming Control
- State Treasurer's Office

Universities

- University System of Maryland
- Morgan State University

Other State agencies may award contracts to certified small businesses, but only the 23 designated agencies may restrict a solicitation to participation by certified small businesses.¹ When an agency restricts a solicitation in that manner, an eligible but uncertified small business may submit a bid/proposal, but that business must be certified before being awarded the contract.²

Minority Business Enterprises that meet the size criteria may be certified as small businesses.³ Nonprofit organizations are not eligible for certification.⁴ The law excludes procurements to preference providers such as Maryland Correctional Enterprises, Blind Industries and Services of Maryland, and Community Service Providers.⁵

III. RECENT CHANGES

A. Repeal of Termination Date

Chapter 76, Laws of 2014 repealed the termination date of Chapter 539 of 2012, which allows a business to qualify as a small business under the Small Business Reserve Program (SBR) if it does not exceed specified limits for the number of employees or average gross sales, instead of qualifying only if it does not exceed both limits. Previously, small businesses were required to meet both the size and revenue standards.

B. Small Business Liaison Officer

COMAR 21.11.01.06 requires the head of each designated procurement unit to oversee that unit's small business reserve program. This position has a wide range of duties including coordinating the unit's outreach efforts to the small business community and reviewing the unit's contracting procedures to ensure compliance with the Program's requirements.

IV. PROGRAM EFFECTIVENESS

By all measurements, the Program reached a historic level of effectiveness in FY 2014:

- In FY 2014, the percentage of agency procurement dollars going to certified small business enterprises averaged 11.82%.
- This increase represents an additional \$160 million in State small business spending: **\$281,637,271 FY 2013 to \$441,592,601 FY 2014.**
- 6,183 entities are listed as certified Small Business Enterprises – up from 6,150 in FY 2013.

¹ §14-504(a) of the State Finance and Procurement Article

² COMAR 21.11.01.06

³ Section 14-501(c)(1) of the State Finance and Procurement Article

⁴ COMAR 21.11.01.01B(1)

⁵ Section 14-502(b) of the State Finance and Procurement Article

Percentage of Procurement Dollars Spent on Small Business Reserve Program – Fiscal Year 2014

| | SBR Participating Agency/Department | SBR Payments | Total Payments | SBR Participation |
|----|---|----------------------|------------------------|-------------------|
| 1 | Business & Economic Development | \$2,329,642 | \$4,614,563 | 50.48% |
| 2 | Education | \$25,495,874 | \$102,476,066 | 24.88% |
| 3 | Environment | \$2,065,456 | \$12,692,687 | 16.27% |
| 4 | General Services | \$24,753,321 | \$63,772,338 | 38.82% |
| 5 | Health & Mental Hygiene | \$19,579,384 | \$235,289,601 | 8.32% |
| 6 | Housing & Community Development | \$4,338,128 | \$19,843,091 | 21.86% |
| 7 | Human Resources | \$16,821,704 | \$123,237,343 | 13.65% |
| 8 | Information Technology | \$11,438,808 | \$72,546,992 | 15.77% |
| 9 | Insurance Administration | \$249,811 | \$2,059,753 | 12.13% |
| 10 | Juvenile Services | \$6,496,932 | \$100,620,314 | 6.46% |
| 11 | Labor, Licensing & Regulation | \$5,143,447 | \$23,596,484 | 21.80% |
| 12 | Lottery | \$5,799,722 | \$122,040,505 | 4.75% |
| 13 | Morgan State University | \$2,871,678 | \$44,488,506 | 6.45% |
| 14 | Natural Resources | \$3,407,047 | \$22,079,306 | 15.43% |
| 15 | Public Safety & Correctional Services | \$16,172,960 | \$237,613,359 | 6.81% |
| 16 | Retirement | \$412,431 | \$2,956,086 | 13.95% |
| 17 | Stadium Authority | \$4,129,347 | \$13,820,538 | 29.88% |
| 18 | State Police | \$5,179,661 | \$27,027,349 | 19.16% |
| 19 | Transportation (<i>Includes The Secretary's Office, Maryland Aviation Administration, Maryland Transit Administration, Motor Vehicle Administration and State Highway Administration</i>) | \$152,020,313 | \$1,654,228,154 | 9.19% |
| 20 | Maryland Port Commission | | | |
| 21 | Maryland Transportation Authority | | | |
| 22 | Treasurer's Office | \$105,492 | \$3,421,861 | 3.08% |
| 23 | University System of Maryland | \$132,781,443 | \$847,540,324 | 15.67% |
| | <i>Bowie State University</i> | \$2,971,251 | \$13,411,760 | 22.15% |
| | <i>Coppin State University</i> | \$1,615,498 | \$10,598,169 | 15.24% |
| | <i>Frostburg State University</i> | \$2,896,200 | \$13,391,831 | 21.63% |
| | <i>Salisbury State University</i> | \$3,432,431 | \$16,013,046 | 21.44% |
| | <i>Towson University</i> | \$12,054,264 | \$61,518,465 | 19.59% |
| | <i>University of Baltimore</i> | \$1,757,517 | \$12,975,250 | 13.55% |
| | <i>University of MD, Baltimore</i> | \$13,388,496 | \$224,260,593 | 5.97% |
| | <i>University of MD, Baltimore County</i> | \$7,130,890 | \$39,550,706 | 18.03% |
| | <i>University of MD, College Park</i> | \$47,969,704 | \$349,021,035 | 13.74% |
| | <i>University of MD, Eastern Shore</i> | \$1,471,709 | \$14,417,979 | 10.21% |
| | <i>University of MD, University College</i> | \$38,093,483 | \$92,381,490 | 41.23% |
| | STATEWIDE TOTAL | \$441,592,601 | \$3,735,965,220 | 11.82% |

V. RECOMMENDATIONS FOR PROGRAM IMPROVEMENT

State agencies exceeded the Program goal of 10% and spent almost 12% of their procurement dollars on small businesses. While this is a positive sign, the vast majority of these small business expenditures are incidental to non-small business reserve procurements. In other words, the outreach efforts that most agencies are conducting are not necessarily contributing to the achievement of the goal. We think agencies should augment their outreach efforts by targeting small businesses that do not typically receive state awards, such as information technology companies and financial services companies.